



THE CITY OF SAN DIEGO

Water Utility

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Annual Financial Report

Financial Data



Office of the City Auditor  
and Comptroller  
Ed Ryan  
City Auditor and Comptroller



THE CITY OF SAN DIEGO



## THE CITY OF SAN DIEGO

November 27, 2002

Honorable Mayor,  
City Council, and City Manager  
City of San Diego, California

The Annual Financial Report of the City of San Diego Water Utility for the fiscal year ended June 30, 2002, is submitted in compliance with Charter provisions. I believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Water Utility; and that all disclosures necessary to enable the reader to gain maximum understanding of the Water Utility financial affairs have been included.

The financial statements have been prepared from accounting records that satisfy accounting principles generally accepted in the United States of America, applicable legal requirements, and although the City is not subject to the Public Utilities Regulatory Commission, substantially in conformance with accounting principles and methods prescribed by such Commission.

I wish to express my appreciation to the Mayor, members of the City Council, the City Manager and my staff for their interest and support in planning and conducting the financial operations of the Water Utility in a responsible and progressive manner.

Respectfully submitted,

Ed Ryan  
City Auditor and Comptroller



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## CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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### INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, City Council  
and City Manager of the  
City of San Diego, California

We have audited the accompanying financial statements of the City of San Diego Water Utility as of June 30, 2002 and 2001 and for the years then ended, listed as Exhibits A, B and C in the foregoing table of contents. These financial statements are the responsibility of the City of San Diego management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the financial statements referred to above present only the Water Department Enterprise fund of the City of San Diego and are not intended to present the financial position of the City of San Diego and results of its operations and the cash flows of its proprietary and similar trust fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the City of San Diego Water Utility at June 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002 on our consideration of the City of San Diego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in accordance with this report in considering the results of our audit.

As described in Note 1 to the basic financial statements, the Water Utility adopted Statements of the Governmental Accounting Standards Board No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments; No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and, No. 38, Certain Financial Statement Note Disclosures.

The scope of our audits did not include the supplemental information listed as Exhibits D, E & F, Schedules and Tables listed in the foregoing table of contents. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

November 27, 2002

*Calderon, Jaham & Osborn*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Water Utility of the City of San Diego (Water Utility), we offer readers of the Water Utility financial statements this narrative overview and analysis of the financial activities of the Water Utility for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on page 13 of this report.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements distinguish functions of the Water Utility that are principally supported by sales of water and are intended to recover all or a significant portion of their costs through user fees and charges. The financial statements include the Independent Auditors' Report, Management's Discussion and Analysis and basic financial statements with accompanying notes. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 24 of this report.

Water Utility adopted Government Accounting Standard Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments;" GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures," on July 1, 2001. The adoption had little effect on the basic financial statements except for the inclusion of a Management's Discussion and Analysis (MD&A) providing analysis of the Water Utility's overall financial position and results of operations. Also, retained earnings are now referred to as net assets and the statements of cash flows are presented using the direct method.

### REQUIRED FINANCIAL STATEMENTS

The financial statements of the Water Utility report information about the Water Utility using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The **Statement of Net Assets** presents information on all of the Water Utility's assets and liabilities, with the difference between the two reported as net assets for the years ended June 30, 2002 and 2001. They also provide information about the nature and amounts of investments in resources (assets), the obligations to the Water Utility's creditors (liabilities), provide the basis for computing rates of return, and assessing the liquidity and financial flexibility of the Water Utility.

The **Statement of Revenues, Expenses and Changes in Net Assets** presents information, showing changes in the Water Utility's net assets for the years ended June 30, 2002 and 2001. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This statement reflects the results of the Water Utility's operations over the years identified and can be used to determine the Water Utility's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The **Statement of Cash Flows** is required to provide information about the Water Utility's cash receipts and cash payments during the years ended June 30, 2002 and 2001. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities; and provides answers to questions of where cash came from, what cash was used for and what the changes in cash were for the reporting periods covered.

# Water Utility

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## FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Utility, assets exceeded liabilities by \$979,905,315 at the close of the most recent fiscal year.

### WATER UTILITY OF THE CITY OF SAN DIEGO'S NET ASSETS

	2002	2001
Current and Other Assets	\$ 347,762,474	\$ 443,465,285
Capital Assets	1,080,713,650	950,702,693
Total Assets	<u>1,428,476,124</u>	<u>1,394,167,978</u>
Long-term Liabilities	371,165,000	378,220,000
Other Liabilities	77,405,809	65,802,087
Total Liabilities	<u>448,570,809</u>	<u>444,022,087</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	702,493,650	651,208,880
Restricted for Debt Service	3,678,227	5,704,685
Unrestricted	273,733,438	293,232,326
Total Net Assets	<u>\$ 979,905,315</u>	<u>\$ 950,145,891</u>

A large portion of the Water Utility's net assets (72 percent) reflects its investment in capital assets (e.g., land and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Utility uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Utility's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Water Utility's net assets (1 percent) represents resources that are subject to external restrictions on how they may be used.

# Water Utility

## Water Utility Activities

Water Utility net assets increased by \$29,759,424. Key elements of this increase are as follows:

### WATER UTILITY OF THE CITY OF SAN DIEGO'S CHANGES IN NET ASSETS

	2002	2001
Revenues:		
Operating Revenues		
Sales of Water	\$ 198,065,060	\$ 193,772,844
Recreation	1,303,921	1,272,055
Fire Services and Back Flow Device Maintenance	1,968,329	1,933,590
Rent from Use of Facilities	3,653,655	3,441,577
Customer Service Charges	821,192	409,593
Storage and Transportation of Water from Other Agencies	381,361	208,774
Other Operating Grants	538,530	905,070
Miscellaneous	15,780,049	10,346,475
General Revenues		
Interest Income	11,882,943	28,067,341
Gain on Sale/Retirement of Fixed Assets	130,111	747,308
Sale of Gravel, Land, etc	6,082	23,940
Non-Operating Grants	200,881	1,272,454
Total Revenues	<u>234,732,114</u>	<u>242,401,021</u>
Expenses:		
Cost of Purchased Water Used	97,311,568	103,322,108
Division of Water Operations	67,230,801	66,050,761
Division of Capital Improvements Program Management	8,486,778	8,475,186
Accounting and Services	7,002,388	7,388,769
General and Administrative	29,979,419	25,075,113
Taxes	1,181,239	1,060,651
Depreciation and Amortization	12,624,432	12,528,800
Interest Expense	18,487,877	18,722,024
Financing Costs Under Installment Purchase Agreement	306,615	306,615
Other	200,881	1,267,913
Total Expenses	<u>242,811,998</u>	<u>244,197,940</u>
Decrease in Net Assets		
Before Transfers	<u>(8,079,884)</u>	<u>(1,796,919)</u>
Capital Contributions	38,825,052	34,515,052
Transfers	<u>(985,744)</u>	<u>(1,415,966)</u>
Change in Net Assets	29,759,424	31,302,167
Net Assets - July 1, 2001, as Restated	<u>950,145,891</u>	<u>918,843,724</u>
Net Assets - June 30, 2002	<u>\$ 979,905,315</u>	<u>\$ 950,145,891</u>

## FINANCIAL ANALYSIS OF THE WATER UTILITY

As of the end of the current fiscal year, the unrestricted net assets of the Water Utility are \$273,733,438, with net assets increasing by \$29,759,424. These increases are primarily attributed to capital contributions received from developers for the installation of water mains.

Water Utility's net assets increased by \$29.7 million or 3.13 percent to nearly \$980 million due to \$38.8 million in Capital Contributions from property owners and other governmental agencies and an operating loss, including transfers, of \$9.1 million.

During the year, Water Utility's operating revenue increased 4.8 percent to \$222.8 million, while total operating expenses remained level at \$223.8 million.

Also during the year, Water Utility had a decline in interest revenue. This decline was due to the reduction in the cash remaining from the 1998 Water Bond issuance of over \$97.3 million to reimburse expenses of the Water Utility Capital Program.

## CAPITAL ASSET AND DEBT ADMINISTRATION

The Water Utility's investment in capital assets for the year ended June 30, 2002 amounts to \$1,080,713,650 (net of accumulated depreciation). The total increase in the Water Utility's investment in capital assets for the current fiscal year is 14 percent.

### WATER UTILITY OF THE CITY OF SAN DIEGO'S CAPITAL ASSETS

[Net of accumulated depreciation]

	2002	2001
Land	\$ 36,902,534	\$ 36,927,554
Structures and Improvements	64,666,881	30,571,577
Equipment	8,369,491	8,752,852
Distribution and Collection Systems	456,642,130	408,715,508
Construction-in-Progress	514,132,614	465,735,202
Total	<u>\$1,080,713,650</u>	<u>\$950,702,693</u>

## Highlights of Fiscal Year 2002 Capital Improvement Activities

Construction on the \$21.5 million Black Mountain Road Pipeline began during the Fiscal Year 2002. The 5.0-mile pipeline will increase water transmission capacity for the Miramar Water Treatment Plant to the northern part of the City, and provide needed system capacity to satisfy current and future demands. The Water Utility's Fiscal Year 2002 capital expenditures for the Black Mountain Road Pipeline were \$6.4 million. Completion is scheduled for Fiscal Year 2004.

## Highlights of approved Fiscal Year 2003 Capital Improvement Projects Budget

\$62.5 million for the Fiscal Year 2003 Water Department CIP budget plus and additional \$26.1 million for projects phase funded in previous years. Projects include the Alvarado Water Treatment Plant, including the Earl Thomas Reservoir, the upgrade and expansion of the Miramar Water Treatment Plant and replacing water mains citywide. These improvements will allow the Water Department to continue to supply San Diegans with a reliable source of safe, clean water, meeting the requirements of the 1996 Safe Drinking Water Act.

# Water Utility

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## Outstanding Debt

At the end of the current fiscal year, the Water Utility had total debt outstanding of \$385,545,624.

### WATER UTILITY OF THE CITY OF SAN DIEGO'S OUTSTANDING DEBT

	2002	2001
Revenue Bonds	\$ 378,220,000	\$ 385,000,000
Capital Lease Obligations	-	103,871
Net Pension Obligation	1,705,165	1,308,436
Liability Claims	1,324,867	1,060,623
Accrued Annual Leave	4,295,592	4,001,606
Total	<u>\$ 385,545,624</u>	<u>\$ 391,474,536</u>

The Water Utility has an Aaa rating from Moody's Investors Service and an AAA rating from Standard & Poor's on the latest Certificate of Undivided Interest Series 1998 Net System Revenue bond issue.

Additional information on the Water Utility's long-term debt can be found in the accompanying notes to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In October, the Water Utility issued \$286,945,000 of lease revenue bonds to finance the upgrade and expansion of its Water System, consistent with the Water Strategic Plan. Council adopted a water rate increase of 6% per year for five years, beginning in Fiscal Year 2003, to finance the bond issuance.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Water Utility's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Auditor & Comptroller, 202 C Street, City of San Diego, California 92101 or e-mailed to the City Auditor and Comptroller at [auditor@sanidiego.gov](mailto:auditor@sanidiego.gov).

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# Water Utility

## STATEMENTS OF NET ASSETS, JUNE 30, 2002 AND 2001

	June 30	
	2002	2001
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash or Equity in Pooled Cash and Investments: Water Operating Fund.....	\$ 213,307,034	\$ 227,645,760
Accrued Interest Receivable.....	1,304,721	4,808,670
Accounts Receivable - Principally from Customers (Less Allowance for Doubtful Accounts of \$1,225,593 and \$1,320,855, Respectively).....	38,046,273	37,115,746
Operating Grants Receivable .....	22,340	26,240
Inventory of Water in Storage.....	31,047,394	12,798,650
Operating Materials and Supplies, Principally at Average Cost.....	255,575	202,790
Prepaid Expenses.....	74	640
<b>TOTAL CURRENT ASSETS.....</b>	<b>283,983,411</b>	<b>282,598,496</b>
<b>NONCURRENT ASSETS:</b>		
<b>RESTRICTED ASSETS:</b>		
Customer Deposits.....	5,416,801	4,528,121
Cash or Equity in Pooled Cash and Investments - Acquisition Funds.....	5,644,156	102,943,485
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds.....	29,052,663	31,079,120
<b>TOTAL RESTRICTED ASSETS.....</b>	<b>40,113,620</b>	<b>138,550,726</b>
<b>ADVANCES TO CITY OF SAN DIEGO INTERNAL SERVICE FUNDS.....</b>	<b>15,663,704</b>	<b>14,013,643</b>
<b>CONSTRUCTION GRANTS RECEIVABLE.....</b>	<b>29,735</b>	<b>23,800</b>
<b>DEFERRED CHARGES.....</b>	<b>7,972,004</b>	<b>8,278,620</b>
<b>CAPITAL ASSETS:</b>		
Land.....	4,824,291	4,824,291
Plants, dams, canals, laterals and equipment.....	700,129,222	687,012,377
Other.....	465,001	465,001
Construction in progress.....	599,846,075	471,318,386
<b>Total.....</b>	<b>1,305,264,589</b>	<b>1,163,620,055</b>
<b>Less Accumulated Depreciation.....</b>	<b>224,550,939</b>	<b>212,917,362</b>
<b>TOTAL CAPITAL ASSETS - NET.....</b>	<b>1,080,713,650</b>	<b>950,702,693</b>
<b>TOTAL ASSETS.....</b>	<b>1,428,476,124</b>	<b>1,394,167,978</b>

See Notes to Financial Statements.

	June 30	
	2002	2001
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable.....	37,088,942	29,633,354
Accrued Payroll.....	2,157,371	2,060,305
Accrued Annual Leave and Sick Leave.....	3,928,218	3,669,696
Accrued SPSP Contributions Payable.....	367,374	331,910
Interest Accrued on Long-Term Debt.....	8,452,370	8,558,429
Long-Term Debt Due Within One Year.....	7,055,000	6,883,871
Liability Claims.....	1,324,867	1,060,623
Pension Liability.....	1,705,165	1,308,436
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>62,079,307</b>	<b>53,506,624</b>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Customer Deposits Payable.....	5,416,801	4,528,121
<b>DEFERRED CREDITS:</b>		
Deferred Contributions in Aid of Construction.....	990,993	1,023,421
Other Deferred Credits.....	8,918,708	6,743,921
<b>TOTAL DEFERRED CREDITS.....</b>	<b>9,909,701</b>	<b>7,767,342</b>
<b>NONCURRENT LIABILITIES:</b>		
Bonds Payable.....	378,220,000	385,000,000
Capital Lease Obligations.....	-	103,871
<b>Total.....</b>	<b>378,220,000</b>	<b>385,103,871</b>
Less Amounts Due Within One Year.....	7,055,000	6,883,871
<b>TOTAL NONCURRENT LIABILITIES.....</b>	<b>371,165,000</b>	<b>378,220,000</b>
<b>TOTAL LIABILITIES .....</b>	<b>448,570,809</b>	<b>444,022,087</b>
<b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt.....	702,493,650	651,208,880
Restricted for Debt Service.....	3,678,227	5,704,685
Unrestricted.....	273,733,438	293,232,326
<b>TOTAL NET ASSETS.....</b>	<b>\$ 979,905,315</b>	<b>\$ 950,145,891</b>

# Water Utility

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS YEARS ENDED JUNE 30, 2002 AND 2001

EXHIBIT B

	Year Ended June 30	
	2002	2001
<b>OPERATING REVENUES:</b>		
Sales of Water:		
Inside City:		
Domestic.....	\$ 118,233,276	\$ 115,380,542
Commercial and Industrial.....	70,006,421	67,541,340
Reclaimed Water.....	2,333,783	3,525,321
Outside City:		
Domestic, Commercial and Industrial.....	128,947	109,991
Other Utilities.....	6,840,711	6,580,655
Irrigation Districts.....	521,922	634,995
Total Sales of Water.....	<u>198,065,060</u>	<u>193,772,844</u>
Other Operating Revenues:		
Recreation.....	1,303,921	1,272,055
Fire Services and Back Flow Device Maintenance.....	1,968,329	1,933,590
Rent from Use of Facilities.....	3,653,655	3,441,577
Customer Service Charges.....	821,192	409,593
Storage and Transportation of Water from Other Agencies.....	381,361	208,774
Other Operating Grants.....	538,530	905,070
Miscellaneous (Net).....	<u>15,780,049</u>	<u>10,346,475</u>
Total Other Operating Revenues.....	<u>24,447,037</u>	<u>18,517,134</u>
<b>TOTAL OPERATING REVENUES.....</b>	<b>222,512,097</b>	<b>212,289,978</b>
<b>OPERATING EXPENSES.....</b>	<b>223,816,625</b>	<b>223,901,388</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(1,304,528)</b>	<b>(11,611,410)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest Income.....	11,882,943	28,067,341
Interest Expense.....	(18,487,877)	(18,722,024)
Financing Costs Under Water Revenue Bonds.....	(306,615)	(306,615)
Gain (Loss) on Sale/Retirement of Fixed Assets.....	130,111	747,308
Sale of Gravel, Land, etc.....	6,082	23,940
Non-Operating Grants.....	200,881	1,272,454
Other.....	<u>(200,881)</u>	<u>(1,267,913)</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>	<b>(6,775,356)</b>	<b>9,814,491</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS.....</b>	<b>(8,079,884)</b>	<b>(1,796,919)</b>
Capital Contributions.....	38,825,052	34,515,052
Transfers from Primary Government.....	-	67,144
Transfer Out.....	(44,592)	(1,212,868)
Transfers to Primary Government.....	<u>(941,152)</u>	<u>(270,242)</u>
<b>CHANGE IN NET ASSETS.....</b>	<b>29,759,424</b>	<b>31,302,167</b>
Net Assets at Beginning of Year (Restated).....	<u>950,145,891</u>	<u>918,843,724</u>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ <u>979,905,315</u></b>	<b>\$ <u>950,145,891</u></b>

See Notes to Financial Statements.

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2002 AND 2001**
**EXHIBIT C**

	Year Ended June 30	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers and Users.....	\$ 223,727,976	\$ 215,032,032
Payments to Suppliers.....	(167,581,832)	(170,367,549)
Payments to Employees.....	(53,403,711)	(48,401,177)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>2,742,433</b>	<b>(3,736,694)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from Primary Government.....	-	67,144
Transfers Out.....	(44,592)	(1,212,868)
Transfer to Primary Government.....	(941,152)	(270,242)
Proceeds from Advances and Deposits.....	888,680	461,568
Payments for Advances and Deposits.....	(1,650,061)	(1,470,845)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(1,747,125)</b>	<b>(2,425,243)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Contributed Capital.....	25,127,760	20,241,324
Aquisition of Capital Assets.....	(129,827,169)	(111,678,763)
Proceeds from the Sale of Capital Assets.....	1,019,184	259,277
Principal Payment on Capital Lease.....	(103,871)	(131,878)
Principal Payment on Long-Term Debt.....	(6,780,000)	-
Interest Paid on Long-Term Debt.....	(18,593,936)	(18,729,536)
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(129,158,032)</b>	<b>(110,039,576)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received on Investments.....	15,386,892	28,068,289
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>15,386,892</b>	<b>28,068,289</b>
Net Increase(Decrease) in Cash and Cash Equivalents.....	(112,775,832)	(88,133,224)
Cash and Cash Equivalents at Beginning of Year.....	366,196,486	454,329,710
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 253,420,654</b>	<b>\$ 366,196,486</b>
<b>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</b>		
Operating Income (Loss).....	\$ (1,304,528)	\$ (11,611,410)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization.....	12,624,432	12,528,800
Changes in Assets and Liabilities:		
(Increase)Decrease in Accounts Receivable:		
Accounts - Net.....	(930,527)	(25,596)
(Increase)Decrease in Grant Receivable.....	(2,035)	1,092,894
(Increase)Decrease in Inventories.....	(18,301,529)	(2,824,810)
(Increase)Decrease in Prepaid and Reimbursable Items and Deposits.....	566	99,318
Increase(Decrease) in Accounts Payable.....	7,455,588	(2,708,601)
Increase(Decrease) in Accrued Wages and Benefits.....	391,052	805,187
Increase(Decrease) in Liability Claims.....	264,244	(3,128,282)
Increase(Decrease) in Deferred Revenue.....	2,142,359	1,670,215
Increase(Decrease) in Net Pension Liability.....	396,729	361,050
Other Nonoperating Revenue (Expenses).....	6,082	4,541
Total Adjustments.....	4,046,961	7,874,716
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 2,742,433</b>	<b>\$ (3,736,694)</b>
<b>Noncash Investing, Capital, and Financing Activities:</b>		
Developer Contributed Assets.....	13,697,292	14,273,728

See Notes to Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Section Fifty-Three of the Charter of the City of San Diego (the "City") establishes a separate utility (the "Water Utility") which is included in the administrative organization of the City; its financial information and records are established and maintained by the City.

As of July 1, 2001, the City of San Diego adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments;" GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus;" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." This results in a change in the format and content of the basic financial statements.

The accounting policies of the Water Utility conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant of such policies:

#### a. Basis of Presentation

The financial activities of the Water Utility are accounted for and reported as an Enterprise Fund of the City. The measurement focus is upon determination of net income, financial position and changes in cash flows.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Water Utility adopts all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

#### b. Basis of Accounting

The Water Utility uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Estimated unbilled revenues are recognized at the end of each fiscal year. This estimated amount is based on billings during the first two months following the close of the fiscal year.

#### c. Cash and Investments

At July 1, 1997, the City of San Diego adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires certain investments to be reported at fair value. At June 30, 2002 and 2001 respectively, all such investments are presented at fair value.

#### d. Inventories

Inventories, which consist of water in storage, are valued at the lower of cost (first-in, first-out basis) or market. Such inventories are expensed when consumed.

# *Water Utility*

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## **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **e. Restricted Assets**

Proceeds from debt issuances, funds set aside for payment of Water Revenue Bonds servicing low interest construction made by various banks are classified as restricted assets since their use is limited by applicable bond indentures.

Generally, when both restricted and unrestricted resources are available for use, it is the Water Utility's policy to use restricted resources first, then unrestricted reserves as they are needed.

### **f. Capital Assets**

Fixed assets owned by the Water Utility are stated at cost if purchased or constructed, or at estimated fair market value if received as a donation. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Plants, dams, canals, laterals and equipment: 3-150 years.

### **g. Long-Term Liabilities**

In the Water Utility financial statements, long-term debt and other long-term obligations are reported as Noncurrent Liabilities in the Statement of Net Assets.

### **h. Employee Annual Leave**

The City provides annual leave to cover both vacation and sick leave. It is the City policy to permit employees to accumulate between 6.25 weeks and 17.5 weeks, depending on hire date, of earned but unused annual leave. Accumulation of these earnings will be paid to employees upon separation from service.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975, is payable upon separation under the following conditions: (1) 50% of the employee's accrued amount upon retirement or death, or (2) 25% of the employee's accrued amount upon resignation. Annual leave benefits are recorded as a liability in the period earned by the employees.

### **i. Claims and Judgments**

Costs of claims and judgments are recorded when the liability is incurred and measurable.

### **j. Contributions in Aid of Construction**

Additions to contributions in aid of construction (approximately \$38,825,000 in 2002 and \$34,515,000 in 2001) represents facilities or cash contributed for facility construction by property owners or government agencies. Cash contributions in aid of construction for meters and service are classified as deferred credits until the facilities have been installed.

### **k. Allocation for System Expansion**

A percentage of water sales is allocated by ordinance for capital improvements.

### **l. Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

### m. Statement of Cash Flows

All of the Water Utility's restricted and unrestricted "Cash or Equity in Pooled Cash and Investments" and "Cash with Custodian/Fiscal Agent" are classified as cash and cash equivalents, since they are readily convertible to known amounts of cash or are so close to their maturity that they present an insignificant risk of changes in value because of fluctuations in interest rates.

### n. Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

## 2. CASH AND INVESTMENTS

### a. Cash or Equity in Pooled Cash and Investments

Cash resources of the Water Utility are combined with the cash resources of the City to form a pool of cash that is managed by the City Treasurer. As provided for by the Government Code, the cash balance of substantially all City funds and certain entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The Water Utility's net share of the total pooled cash and investments is included in the accompanying statement of net assets under the caption "Cash or Equity in Pooled Cash and Investments". Interest earned on pooled investments is deposited to certain of the participating City funds and entities, including the Water Utility, based upon each fund's and each entity's average daily deposit balance during the allocation period with all remaining interest deposited to the City's General Fund.

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law, as well as by the City's own written investment policy. Within the context of these limitations, permissible investments include (1) obligations of the U.S. government and federal agencies, (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, (3) bankers' acceptances, (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer and (7) financial futures contracts which are used to offset an existing financial position and not for outright speculation.

### b. Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value, the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable. In Fiscal Year 2002, however, the City did not enter into any reverse repurchase agreements. As such, there was no such credit exposure at year-end.

# Water Utility

## 2. CASH AND INVESTMENTS (Continued)

Deposits and investments are generally exposed to two types of risk; credit risk and market risk. Credit risk is the risk that a governmental entity will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. Market risk is the risk that the value of an investment will decline.

Deposits may be categorized as follows: (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name, (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entities name, (3) Uncollateralized.

Investments may be categorized as follows: (1) Insured or registered, with securities held by the entity or its agent in the entity's name, (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name, (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

In accordance with governmental reporting standards, the City has classified its deposits and investments by categories of credit risk. Information pertaining to the City's cash and investment pool may be found in the City's Comprehensive Annual Financial Report.

## 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 36,927,554	\$ (25,020)	\$ -	\$ -	\$ 36,902,534
Structures and Improvements	101,073,960	-	-	-	101,073,960
Equipment	25,025,438	937,202	(19,790)	(140,890)	25,801,960
Distribution and Collection Systems	614,988,179	13,426,788	(1,061,446)	-	627,353,521
Construction in Progress	385,604,924	130,289,579	(1,761,889)	-	514,132,614
Total at Historical Cost	<u>1,163,620,055</u>	<u>144,628,549</u>	<u>(2,843,125)</u>	<u>(140,890)</u>	<u>1,305,264,589</u>
Less Accumulated Depreciation For:					
Structures and Improvements	(35,374,069)	(1,033,010)	-	-	(36,407,079)
Equipment	(15,920,500)	(1,784,330)	19,964	252,397	(17,432,469)
Distribution and Collection Systems	(161,622,794)	(9,197,862)	109,265	-	(170,711,391)
Total Accumulated Depreciation	<u>(212,917,363)</u>	<u>(12,015,202)</u>	<u>129,229</u>	<u>252,397</u>	<u>(224,550,939)</u>
Capital Assets, Net	<u>\$ 950,702,692</u>	<u>\$ 132,613,347</u>	<u>\$ (2,713,896)</u>	<u>\$ 111,507</u>	<u>\$ 1,080,713,650</u>

## 4. LONG-TERM DEBT

The City Charter provides that the bonded indebtedness for the development, conservation and furnishings of water cannot exceed 15% of the most recent assessed valuation of all real and personal property of the City subject to direct taxation, and 10% for other municipal improvements. At June 30, 2002, such limits for the City were \$3,761,418,000 and \$2,507,612,000, respectively.

The \$385,000,000 San Diego Facilities and Equipment Leasing Corporation (Corporation) 1998 Water Revenue Bonds were issued to finance the acquisition, construction, installation, and improvement of its

# Water Utility

## 4. LONG-TERM DEBT (Continued)

water system. The Corporation obtained financing for the project through the issuance of bonds secured by installment payments made to the Corporation by the City. The bonds bear interest from 4.0 percent to 5.375 percent and are due in annual installments. The City has pledged revenues from its net system to finance these installment payments in an amount equal to the principal and interest requirements of the associated bonds, and are considered a liability of the Water Utility fund.

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding	
				June 30, 2002	June 30, 2001
Water Revenue Bonds Series 1998	4.0-5.375%	2028	\$385,000,000	\$378,220,000	\$385,000,000
Capital Lease Obligations	6.0-6.4%	2002	611,215	-	(103,871)
Total Long-Term Debt			<u>\$385,611,215</u>	<u>\$378,220,000</u>	<u>\$385,103,871</u>

The following is a summary of changes in general long-term debt for the year ended June 30, 2002:

Type of Obligation	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002	Due Within One Year
Water Revenue Bonds, Series 1998	\$385,000,000	\$ -	\$6,780,000	\$378,220,000	\$7,055,000
Capital Lease Obligations	103,871	-	103,871	-	-
Total	<u>\$385,103,871</u>	<u>\$ -</u>	<u>\$6,883,871</u>	<u>\$378,220,000</u>	<u>\$7,055,000</u>

Annual requirements to amortize long-term debt as of June 30, 2002, including interest payments to maturity are as follows:

Year Ending June 30,	Bonds Payable	
	Principal	Interest
2003	\$ 7,055,000	\$ 18,317,236
2004	7,345,000	18,029,236
2005	7,645,000	17,729,436
2006	7,965,000	17,409,271
2007	8,305,000	17,065,525
2008 - 2012	47,770,000	79,091,713
2013 - 2017	61,690,000	65,167,250
2018 - 2022	79,600,000	47,251,613
2023 - 2027	102,425,000	24,430,731
2028 - 2029	<u>48,420,000</u>	<u>2,327,263</u>
Total	<u>\$378,220,000</u>	<u>\$306,819,274</u>

# Water Utility

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## 5. LEASE COMMITMENTS

### Lease Revenue

The Water Utility has operating leases for certain land, buildings, and facilities with tenants and concessionaires who will provide the following minimum annual lease payments:

<u>Year Ending June 30</u>	
2003	\$ 1,718,325
2004	1,675,863
2005	1,521,417
2006	1,490,641
2007	1,349,494
Thereafter	<u>24,961,926</u>
Total	<u>\$32,717,666</u>

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns. Contingent rentals amounted to \$1,907,966 in the year ended June 30, 2002.

## 6. TRANSACTIONS WITH THE CITY OF SAN DIEGO

The Water Utility has financed the acquisition by the City's Internal Service Funds of certain vehicles and supplies used by the Water Utility. The Internal Service Funds charge the Water Utility for the use of the vehicles and supplies. However, there is no specific provision for the repayment of these advances or interest on them. It is the City's general intent that the advances be repaid as the financial condition of the Internal Service Funds permit.

Included in operating expenses is approximately \$2,971,000 in 2002 and \$3,004,000 in 2001 charged by the City to the Water Utility for indirect general government expenditures incurred by the City. Such charges are based on a pro-rata portion of general government expenditures applicable to the Water Utility.

The Water Utility sells water to the City at commercial rates. Such revenues were approximately \$7,370,000 in 2002 and \$7,178,000 in 2001.

The Water Utility paid approximately \$6,743,000 in 2002 and \$6,703,000 in 2001 for computer services provided by the San Diego Data Processing Corporation, a non-profit corporation, of which the City is the sole member.

The Water Utility paid \$1,066,681 in 2002 and \$2,631,042 in 2001 to the City for right-of-way impact assessment charges for the use of public right-of-way for water distribution systems.

## 7. CHARGE IN LIEU OF TAXES

Charge in lieu of taxes consists primarily of charges by the Metropolitan Water District of Southern California and the San Diego County Water Authority.

## 8. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees.

## 8. PENSION PLANS (Continued)

### DEFINED BENEFIT PLAN

#### a. Plan Description

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the San Diego City Employees' Retirement System (SDCERS).

SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members.

In 1963, through an agreement between the City and the District, employees of the District became members of SDCERS.

The Plan is a defined benefit plan which covers all eligible employees of the City and the District. The Plan is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, the length of membership service and the member's final compensation earnable based on the highest one-year period.

The Plan provisions applicable to general members are generally applicable to the District's general members and those applicable to lifeguard members are generally applicable to the District's safety members.

All full-time City and District employees are eligible to participate in the Plan. Salaried classified employees become members of the system upon employment. Salaried unclassified employees hired on or after August 11, 1995, become members upon employment.

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

SDCERS issues a stand-alone financial report which is available at its office located at 401 B Street, Suite 400, San Diego, California 92101.

#### b. Funding Policy

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (19 years remaining).

Employees are required to contribute a percentage of their annual salary to the Plan. Contributions vary according to age at entry into the plan and salary. The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. Prior to June 30, 1993, contributions were based on the entry age normal cost method of valuation.

During the period July 1, 2001, to June 30, 2002, contributions totaling \$105,699,000 (\$51,058,000 employer, and \$54,641,000 employee) were made. Of the employer contributions, \$40,846,000 was applied to normal cost and \$10,212,000 was applied to unfunded accrued liability. All of the employer offset contributions were applied to normal cost.

## 8. PENSION PLANS (Continued)

In 1996 the City Council approved proposed changes to SDCERS which included changes to retiree health insurance, plan benefits, employer contribution rates and system reserves. The proposal included a provision to assure the funding level of the system would not drop below a level the Board's actuary deems reasonable in order to protect the financial integrity of SDCERS. A citizen required vote on the changes related to retiree health insurance passed overwhelmingly in 1996. In 1997, active members of SDCERS voted and approved the changes. Portions of the proposal requiring SDCERS Board approval (employer rates and reserves) were approved after review and approval by its independent fiduciary counsel and consultation with the actuary. The San Diego Municipal Code was then amended to reflect the changes.

The changes provide the employer contribution rates be "ramped up" to the actuarially recommended rate in .50 percent increments over a ten year period at such time it was projected that the Projected Unit Credit (PUC) and Entry Age Normal (EAN) rates would be equal and SDCERS would convert to EAN. The actuary calculated the present value of the difference between the employer contribution rate and actuarial rates over the ten year period and this amount was funded in a reserve. This "Corridor" funding method is unique to SDCERS and therefore is not one of the six funding methods formally sanctioned by the Governmental Accounting Standards Board for expending purposes. As a result for June 30, 2002, the actuary rates are reported to be \$39,230,000 more than paid by the City which, technically per GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employees," effective for periods beginning after June 15, 1997, is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve. The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO.

### c. Annual Required Contribution

The annual required contribution for the current year was determined as part of the June 30 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) projected salary increases of 4.75% per year. Both (a) and (b) included an inflation rate of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002 was 19 years.

### d. Three-Year Trend Analysis

The following table shows the City's Annual Pension Cost (APC) and the percentage of the APC contributed for the most current year available and preceding years (in thousands):

<u>Fiscal Year Ending</u>	<u>APC</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/99	\$44,008	78.30%	\$23,046
6/30/00	\$50,044	78.66%	\$30,983
6/30/01	\$52,585	84.32%	\$39,230

## 8. PENSION PLANS (Continued)

### e. Net Pension Obligation Three Year-Trend Analysis

The following table shows the calculation of the City's NPO for the most current year available and preceding years (in thousands):

Fiscal Year Ending	Actuarial Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Amortization Factor	APC	Contribu- tions Made	Change in NPO	NPO
6/30/99	\$43,504	\$1,210	\$ 706	21.41%	\$44,008	\$34,467	\$7,922	\$23,046
6/30/00	\$49,276	\$1,844	\$1,076	21.41%	\$50,044	\$39,364	\$7,937	\$30,983
6/30/01	\$54,346	\$2,269	\$4,030	21.41%	\$52,585	\$44,338	\$8,247	\$39,230

### DEFINED CONTRIBUTION PLANS

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan (SPSP), a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, which provides pension benefits for eligible full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month. Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4.5% and 3.05%, respectively, of total salary.

The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement.

The City and the covered employees contributed approximately \$45,584,371 for the year ending June 30, 2002. As of June 30, 2002, fair value of Plan assets totaled approximately \$375,108,000. SPSP is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

In addition, the City established a 401(k) Plan effective July 1, 1985. The plan is a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, to provide pension benefits for all eligible full-time employees. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program.

The employees' 401(k) contributions were calculated pursuant to various combination arrangements. The covered employees and the City contributed approximately \$21,650,000 during the fiscal year.

As of June 30, 2002, fair value of Plan assets totaled approximately \$104,059,000. The 401(k) Plan is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as an Agency Fund.

# Water Utility

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## 9. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain health care insurance benefits for retired general and safety members of SDCERS who retired on or after October 6, 1980. At June 30, 2002, approximately 3,327 eligible retirees received benefits.

Certain health care insurance benefits were established during Fiscal Year 1995 for eligible retirees who retired prior to October 6, 1980, or who were otherwise not eligible to receive City-paid health care insurance as of June 30, 1994. At June 30, 2002, approximately 536 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2002, expenditures of approximately \$8,882,138 were recognized for such health care benefits.

Substantially all of the City's general and safety members of SDCERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

## 10. COMMITMENTS AND CONTINGENCIES

The Water Utility's construction plans for various projects are estimated to cost approximately \$105,531,000. The Utility had contractual commitments for these projects totaling approximately \$75,082,000 in 2002 and \$77,764,000 in 2001. The Utility intends to finance the contractual commitments with reserves and service charges, and the issuance of long-term debt.

The Water Utility is self-insured for general liability claims. The Water Utility has recorded approximately \$1,325,000 in 2002 and \$1,061,000 in 2001 for such claims. These amounts represent the Utility's determination of the probable ultimate cost of the claims.

## 11. RESTATEMENT OF BEGINNING BALANCES

As a result of changes in accounting policies and implementation of GASB 34, the fund statements, fund balances, retained earnings, and net assets as of June 30, 2001 have been restated as follows (in thousands):

	<u>Water Utility</u>
Fund balances/net assets, June 30, 2001, as previously reported	\$946,008,975
Reclassification/Adjustments	<u>4,136,916</u>
Fund balances/net assets, June 30, 2001, as restated	<u>\$950,145,891</u>

## 12. SUBSEQUENT EVENTS

On October 24, 2002, the Public Facilities Financing Authority issued \$286,945,000 of the Subordinated Water Revenue Bonds to finance the upgrade and expansion of the infrastructure of the Water System of the City of San Diego. The Series 2002 Bonds are secured by and payable solely from net system revenues of the Water Utility Fund. The interest rate on the bonds range from 2.00 - 5.00 percent and the maturity date is August 1, 2032.

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# Water Utility

## NET REVENUE AVAILABLE FOR ADJUSTED DEBT SERVICE YEARS ENDED JUNE 30, 2002 AND 2001

## EXHIBIT D

### UNAUDITED

	Year Ended June 30	
	2002	2001
<b>TOTAL OPERATING REVENUES (Exhibit B).....</b>	<b>\$ 222,512,097</b>	<b>\$ 212,289,978</b>
<b>OPERATING EXPENSES:</b>		
Cost of Purchased Water Used.....	97,311,568	103,322,108
Water Operations.....	67,230,801	66,050,761
Capital Improvements Program.....	8,486,778	8,475,186
Accounting.....	7,002,388	7,388,769
General and Administrative.....	29,979,419	25,075,113
Taxes.....	1,181,239	1,060,651
<b>TOTAL OPERATING EXPENSES.....</b>	<b>211,192,193</b>	<b>211,372,588</b>
<b>OPERATING INCOME.....</b>	<b>11,319,904</b>	<b>917,390</b>
<b>OTHER INCOME (CHARGES):</b>		
Capital Grant Receipts.....	749,187	278,435
Transfers In/(Out).....	(44,592)	(1,212,868)
Transfers From/(To) Primary Government.....	(941,152)	(203,098)
Sale of Gravel, Land, etc.....	6,082	23,940
Interest Income.....	13,615,067	18,528,367
Rate Stabilization.....	2,000,000	7,000,000
Water System Capacity Charge.....	22,249,985	16,581,394
Non-Operating Grants.....	200,881	1,272,454
Other Income.....	(200,881)	(1,267,913)
<b>TOTAL OTHER INCOME (CHARGES).....</b>	<b>37,634,577</b>	<b>41,000,711</b>
<b>NET SYSTEM REVENUE.....</b>	<b>48,954,481</b>	<b>41,918,101</b>
(Interest Earnings on Reserve Fund)	(3,444,126)	(54,334)
<b>ADJUSTED NET SYSTEM REVENUE.....</b>	<b>\$ 45,510,355</b>	<b>\$ 41,863,767</b>
Principal and Interest Due in Fiscal Year.....	25,373,936	18,729,536
Interest Earnings on Reserve Fund.....	(3,444,126)	(54,334)
<b>ADJUSTED DEBT SERVICE.....</b>	<b>\$ 21,929,810</b>	<b>\$ 18,675,202</b>
Debt Service Coverage - Parity Obligations.....	2.08	2.24

# Water Utility

## CHANGES IN FUNDS AVAILABLE FOR APPROPRIATION YEAR ENDED JUNE 30, 2002

EXHIBIT E

UNAUDITED

	Water Operating Fund
Funds Available for Appropriation at July 1, 2001.....	\$ -
Add:	
Cash Receipts (Schedule E-1).....	362,717,342
Anticipated Contributions from Other Agencies at June 30, 2002.....	120,497
Operating Reserve at July 1, 2001.....	14,767,000
Emergency Reserve at July 1, 2001.....	5,000,000
Rate Stabilization at July 1, 2001.....	28,500,000
Secondary Purchase at July 1, 2001.....	10,707,000
Continuing Appropriations at July 1, 2001.....	46,769,476
Continuing Appropriations Encumbered at July 1, 2001.....	15,552,727
Accrued Annual Leave and Sick Leave at July 1, 2001.....	3,669,696
Net Pension Obligation at July 1 2001, as Restated.....	1,308,436
Prior Years' Encumbrances Cancelled.....	1,924,005
Designated for Subsequent Years' Capital Projects and Operations at July 1, 2001, as Restated.....	85,742,490
Total Balances and Additions.....	576,778,669
Deduct:	
Expenditures and Encumbrances (Schedule E-2).....	447,405,309
Anticipated Contributions from Other Agencies at July 1, 2001.....	819,514
Accrued Annual Leave and Sick Leave at June 30, 2002.....	3,928,218
Net Pension Obligation at June 30, 2002.....	1,705,165
Operating Reserve at June 30, 2002.....	14,421,150
Emergency Reserve at June 30, 2002.....	5,000,000
Rate Stabilization at June 30, 2002.....	26,500,000
Secondary Purchase at June 30, 2002.....	11,663,000
Designated for Subsequent Years' Capital Projects and Operations at June 30, 2002.....	39,615,525
Continuing Appropriations at June 30, 2002.....	25,720,788
Total Deductions.....	576,778,669
FUNDS AVAILABLE FOR APPROPRIATION AT JUNE 30, 2002.....	\$ -

# Water Utility

RECREATION ACTIVITIES  
YEAR ENDED JUNE 30, 2002

EXHIBIT F

UNAUDITED

	Barrett Reservoir Station	Olay Reservoir Station	Sutherland Reservoir Station	Hodges Reservoir Station	Miramar Reservoir Station	El Capitan Reservoir Station	San Vicente Reservoir Station	Murray Reservoir Station	Total
<b>REVENUES</b>									
Fishing	\$ 102,353	\$ 137,801	\$ 46,674	\$ 54,733	\$ 76,066	\$ 107,919	\$ 208,796	\$ 101,368	\$ 835,710
Water Contact	-	-	-	4,632	-	42,839	274,840	-	322,311
<b>TOTAL REVENUES</b>	<u>102,353</u>	<u>137,801</u>	<u>46,674</u>	<u>59,365</u>	<u>76,066</u>	<u>150,758</u>	<u>483,636</u>	<u>101,368</u>	<u>1,158,021</u>
<b>EXPENSES</b>									
Fishing	99,452	170,751	152,378	159,324	145,368	198,112	304,672	177,400	1,407,457
Water Contact	-	166	12,467	-	482	71,028	289,225	461	373,829
<b>TOTAL EXPENSES</b>	<u>99,452</u>	<u>170,917</u>	<u>164,845</u>	<u>159,324</u>	<u>145,850</u>	<u>269,140</u>	<u>593,897</u>	<u>177,861</u>	<u>1,781,286</u>
<b>Gross Profit (Loss) From Operations</b>	<u>\$ 2,901</u>	<u>\$ (33,116)</u>	<u>\$ (118,171)</u>	<u>\$ (99,959)</u>	<u>\$ (69,784)</u>	<u>\$ (118,382)</u>	<u>\$ (110,261)</u>	<u>\$ (76,493)</u>	<u>(623,265)</u>
<b>Depreciation Expense - All Stations</b>									<u>(88,940)</u>
<b>Net Profit From Operations</b>									<u>\$ (712,205)</u>
<b>Percent Profit</b>									<u>-61.50%</u>